

# **Gaylord Downtown Development Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# **Gaylord Downtown Development Authority**

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## Independent Auditor's Report

To the Board of Directors  
Gaylord Downtown Development Authority

We have audited the accompanying financial statements of the governmental activities and the major fund of Gaylord Downtown Development Authority as of and for the year ended June 30, 2007, which collectively comprise Gaylord Downtown Development Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gaylord Downtown Development Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gaylord Downtown Development Authority as of June 30, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

August 1, 2008

# **Gaylord Downtown Development Authority**

## **Management's Discussion and Analysis (Unaudited)**

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Our discussion and analysis of Gaylord Downtown Development Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- Property tax revenue increased by approximately \$64,000 this year.
- Total net assets related to the Authority's governmental activities increased by approximately \$391,000.
- Subsequent to year end, the previous executive director was prosecuted for fraudulent expenditures. The impact of this case is further described in Note 9.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and comparison to prior year costs.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant fund.

# Gaylord Downtown Development Authority

## Management's Discussion and Analysis (Unaudited) (Continued)

### Authority-wide Statements

The following table shows, in condensed format, the net assets for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u> (as restated)
<b>Assets</b>		
Current	\$ 271,352	\$ 85,641
Long-term	<u>484,000</u>	<u>495,000</u>
Total assets	755,352	580,641
<b>Liabilities</b>		
Current	607,901	560,539
Long-term	<u>821,200</u>	<u>1,084,400</u>
Total liabilities	<u>1,429,101</u>	<u>1,644,939</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	199,600	163,200
Unrestricted	<u>(873,349)</u>	<u>(1,227,498)</u>
Total net assets, as restated (Note 10)	<u><b>\$ (673,749)</b></u>	<u><b>\$ (1,064,298)</b></u>

The Authority's combined net asset deficiency was reduced 36.7 percent from a year ago, falling from \$1,064,298 to \$673,749.

# **Gaylord Downtown Development Authority**

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## **Management's Discussion and Analysis (Unaudited) (Continued)**

### **Authority-wide Statements (Continued)**

Below is a summary of revenue and expenditures as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u> (as restated)
<b>Revenue</b>		
Property tax revenue	\$ 549,496	\$ 485,261
Contributions from other funds	-	25,000
Interest income	11,433	7,156
Other revenue	<u>86,146</u>	<u>-</u>
Total revenue	647,075	517,417
<b>Expenditures</b>		
Community and economic development	184,321	279,706
Interest expense	<u>72,205</u>	<u>92,213</u>
Total expenditures	<u>256,526</u>	<u>371,919</u>
<b>Excess of Revenue Over Expenditures</b>	<b><u>\$ 390,549</u></b>	<b><u>\$ 145,498</u></b>

The Authority's total revenues increased by approximately \$130,000. The increase, which represents 25.1 percent, was primarily due to recording a receivable and revenue for amounts received from the previous executive director's restitution further described in Note 9 and an increase in taxable values in the property tax collections.

Expenditures decreased by approximately \$115,000. The 31.0 percent decrease was primarily due to expenditures reclassified from the Authority to a receivable related to the executive director's restitution further described in Note 9.

# **Gaylord Downtown Development Authority**

## **Management's Discussion and Analysis (Unaudited) (Continued)**

### **Budgetary Highlights**

The Authority did not make any budget amendments during the year. Actual revenue was approximately \$52,000 more than budget due to recording a receivable and revenue for amounts received from the previous executive director's restitution further described in Note 9. Actual expenditures were approximately \$99,000 less than budget primarily due to expenditures reclassified from the Authority to a receivable related to the executive director's restitution further described in Note 9. There were no significant budget expenditure overruns.

### **Capital Asset and Debt Administration**

**Capital Assets** - The Authority has invested in the downtown pavilion. There were no expenditures in the current year related to capital assets.

**Long-term Debt** - The Authority has long-term debt with the City of Gaylord for two bond issues related to the downtown development initiative. The bonds totaled \$1.1 million and \$1.3 million for June 30, 2007 and 2006, respectively. See Note 7 for further discussion.

### **Economic Factors and Next Year's Budgets**

The Authority's fund budget for next year calls for \$616,348 in both revenue and expenditures. An increase in revenue was budgeted for property taxes, with a corresponding increase in expenditures for community and economic development.

### **Contacting Authority Management**

This financial report is designed to provide taxpayers, creditors, investors, and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenue it receives. If you have questions about this report or need additional information, we welcome you to contact management at 305 E. Main Street, Gaylord, MI 49735.

# Gaylord Downtown Development Authority

## Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2007

	Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
<b>Assets</b>			
Cash and cash equivalents (Note 4)	\$ 111,352	\$ -	\$ 111,352
Accounts receivable - Net of allowance of \$47,089 (Note 9)	<u>160,000</u>	<u>-</u>	<u>160,000</u>
Total current assets	271,352	-	271,352
Capital assets - Depreciable (Note 5)	<u>-</u>	<u>484,000</u>	<u>484,000</u>
Total assets	<u><b>\$ 271,352</b></u>	484,000	755,352
<b>Liabilities</b>			
Due to primary government	\$ 258,042	-	258,042
Due to other governments	68,947	-	68,947
Accounts payable	2,171	-	2,171
Accrued interest expense	-	15,541	15,541
Current portion of long-term debt (Note 7)	<u>-</u>	<u>263,200</u>	<u>263,200</u>
Total current liabilities	329,160	278,741	607,901
Long-term debt - Net of current portion (Note 7)	-	821,200	821,200
<b>Fund Balance - Unreserved and undesignated</b>	<u>(57,808)</u>	<u>57,808</u>	<u>-</u>
Total liabilities and fund balance	<u><b>\$ 271,352</b></u>	<u>1,157,749</u>	<u>1,429,101</u>
<b>Net Assets</b>			
Invested in capital assets		199,600	199,600
Unrestricted		<u>(873,349)</u>	<u>(873,349)</u>
Total net assets		<u><b>\$ (673,749)</b></u>	<u><b>\$ (673,749)</b></u>



# Gaylord Downtown Development Authority

## Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2007

	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
<b>Revenue</b>			
Property tax revenue	\$ 549,496	\$ -	\$ 549,496
Interest income	11,433	-	11,433
Other revenue	86,146	-	86,146
Total revenue	647,075	-	647,075
<b>Expenditures</b>			
Community and economic development	173,321	11,000	184,321
Debt service	297,788	(225,583)	72,205
Total expenditures	471,109	(214,583)	256,526
<b>Change in Fund Balance/Net Assets</b>	175,966	214,583	390,549
<b>Fund Balance/Net Assets</b>			
Beginning of year - As restated (Note 10)	(233,774)	(830,524)	(1,064,298)
End of year	<u>\$ (57,808)</u>	<u>\$ (615,941)</u>	<u>\$ (673,749)</u>

# Gaylord Downtown Development Authority

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## Notes to Financial Statements June 30, 2007

### Note 1 - Significant Accounting Policies

**Reporting Entity** - Gaylord Downtown Development Authority (the "Authority") was organized in 1985 by the City of Gaylord under Public Act 197 of the State of Michigan. Its purpose is to analyze the impact of economic changes and growth in the downtown district. The district is defined by the City's Ordinance 1985-09. The boundaries of the district extend from the north I-75 overpass east through the downtown district and encompass approximately 25 square blocks. The Authority, by ordinance, will expire on June 15, 2012. Additional information regarding the City of Gaylord, the Authority, and the Authority's TIF is contained in the City of Gaylord's audited financial statements available at the City offices located at 305 East Main Street, Gaylord, MI 49735.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally 60 days.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Authority reports the one major governmental fund that is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

#### **Assets, Liabilities, and Net Assets or Equity**

**Deposits** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Receivables** - All trade and intergovernmental receivables are shown as net of allowance for uncollectible amounts.

# Gaylord Downtown Development Authority

## Notes to Financial Statements June 30, 2007

### Note 1 - Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include the pavilion, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The pavilion has an estimated useful life of 50 years.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Property Taxes** - Taxes are levied on businesses in the district July 1 of each year and are recognized as revenue in that fiscal year. Taxes are assessed on a lien date of the previous December 31. The due date is September 15.

Amounts collected after the due date are assessed interest and/or penalties. A county revolving fund normally pays the balance of the Authority's tax levy by May 31 of each year. The tax rate for the year ended June 30, 2007 is as follows:

Purpose	Rate/Assessed Valuation
General	\$1.8582 per \$1,000

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

# Gaylord Downtown Development Authority

## Notes to Financial Statements June 30, 2007

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balance and the net change in fund balance of the Authority's governmental fund differ from net assets and changes in net assets of the governmental activities reported in the statement of net assets and the statement of activities. These differences result primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the economic focus of the governmental fund balance sheet and the statement of governmental fund revenue, expenditures, and changes in fund balance. The following reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets are as follows:

<b>Total Fund Balance</b> - Governmental fund	\$ (57,808)
Capital assets used in governmental activities are not financial resources and are not reported in the funds	484,000
Amounts reported in the statement of net assets are different because long-term debt used in governmental activities is not a financial liability and is not reported in the funds	<u>(1,099,941)</u>
<b>Total Net Assets</b> - Full accrual basis	<u>\$ (673,749)</u>
<b>Net Change in Fund Balance</b> - Modified accrual basis	\$ 175,966
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Current year allocation of depreciation	(11,000)
Amounts reported for governmental activities in the statement of activities are different because governmental funds report debt payments as expenditures in the statement of activities; this is the amount by which debt payments exceed new debt issues and changes in accrued interest expense in the current period	<u>225,583</u>
<b>Change in Net Assets of Governmental Activities</b> - Full accrual basis	<u>\$ 390,549</u>

# Gaylord Downtown Development Authority

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## Notes to Financial Statements June 30, 2007

### Note 3 - Stewardship, Compliance, and Accountability

**Custody of Assets** - All assets are under the control of the Authority. Upon dissolution of the Authority, all remaining assets revert to the City of Gaylord.

**Fund Deficits** - The Authority has an accumulated fund balance deficit of \$57,808.

### Note 4 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority utilizes two banks for the deposit of its funds.

The Authority's cash is subject to risk, as examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$10,331 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Gaylord Downtown Development Authority

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

The Authority maintains the rights for the use of the pavilion. Title of the pavilion is held by the City of Gaylord; however, the Authority maintains control and upkeep of the asset.

Capital asset activity of the Authority's governmental activities was as follows:

	Beginning	Reductions	Ending
Investment in pavilion	\$ 550,000	\$ -	\$ 550,000
Accumulated depreciation	(55,000)	(11,000)	(66,000)
Net capital assets	<u>\$ 495,000</u>	<u>\$ (11,000)</u>	<u>\$ 484,000</u>

Depreciation expense was charged to community and economic development for \$11,000.

### Note 6 - Risk Management

The Authority's liability insurance is paid for by the City of Gaylord.

### Note 7 - Long-term Debt

Beginning July 1, 1993, the Authority collected approximately \$150,000 in taxes under a Tax Increment Financing Plan. The plan will last 20 years. The revenue is designated for the repayment of \$1.9 million in bonds sold by the City of Gaylord to finance street/sidewalk improvements and other purposes. The bonds are backed by the full faith and credit of the City of Gaylord and are accordingly reflected in the City of Gaylord's financial statements. The bonds are payable in installments of \$25,000 to \$200,000 plus interest ranging from 5 percent to 8 percent through 2011. The first principal payment was due April 1, 1997.

An additional \$900,000 of tax development bonds was sold during the year ended June 30, 2002. The bonds are backed by the full faith and credit of the City of Gaylord and are accordingly reflected in the City of Gaylord's financial statements. The bonds are payable in installments of \$75,000 to \$125,000 plus interest ranging from 3.5 percent to 4.6 percent through 2011.

# Gaylord Downtown Development Authority

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	(Reductions)	Ending Balance	Due Within One Year
1994 Tax Increment Financing Bonds:						
Amount of issue: \$1,900,000		\$25,000 -				
Maturing through April 2011	5-8%	\$200,000	\$ 975,000	\$ (175,000)	\$ 800,000	\$ 200,000
2001 Limited Tax Development Bonds:						
Amount of issue: \$900,000		\$75,000 -				
Maturing through April 2011	3.5-4.6%	\$125,000	331,800	(47,400)	284,400	63,200
Total governmental activities			<u>\$ 1,306,800</u>	<u>\$ (222,400)</u>	<u>\$ 1,084,400</u>	<u>\$ 263,200</u>

**City Contractual Obligations** - The above contractual obligations to the City are the result of the City's issuance of bonds on the Authority's behalf. The Authority has pledged substantially all revenue of the TIF fund, net of operating expenses, to repay the obligations. The remaining principal and interest to be paid on the bonds total \$1,239,556. During the current year, net revenues of the fund were \$566,693 compared to the annual debt requirements of approximately \$325,000.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Principal	Interest	Total
2008	\$ 263,200	\$ 62,164	\$ 325,364
2009	263,200	46,872	310,072
2010	279,000	31,380	310,380
2011	<u>279,000</u>	<u>14,740</u>	<u>293,740</u>
Total	<u>\$ 1,084,400</u>	<u>\$ 155,156</u>	<u>\$ 1,239,556</u>

### Note 8 - Contingent Liabilities

From time to time, the Authority is party to various lawsuits and claims arising out of the normal conduct of its business. In the opinion of management, the financial position of the Authority will not be materially affected by the final outcome of these legal proceedings.

# Gaylord Downtown Development Authority

## Notes to Financial Statements June 30, 2007

### Note 9 - Subsequent Event

Subsequent to year end, there was an investigation of fraud committed by the Authority's former executive director. The investigation has been completed and the former director has been charged with this crime. In total, \$217,465 has been identified as fraudulent payments between 2001 and 2007 from the Authority. Additionally, the Authority is requesting interest of \$17,087 be repaid, for a total reimbursement of \$234,552. Of the total reimbursement requested, \$207,089 (\$190,609 plus \$16,480 in accrued interest) relates to payments in the period prior to June 30, 2007 and has been recorded as a receivable by the Authority. The remaining \$27,463 relates to payments made after year end and accrued interest and will be recorded by the Authority in the proper period. The former director has made restitution of \$100,000 and the Authority's insurance carrier has approved a claim of \$60,000 as of the opinion date. The remaining \$47,089 has been fully reserved for at June 30, 2007.

Additionally, the former director has placed \$60,000 in escrow with the prosecutor, of which the amounts will be allocated for court costs, legal expenses, and reimbursement to another organization and to the Authority. The amount the Authority may receive cannot be determined at this time.

### Note 10 - Prior Period Adjustments

The accompanying fund balance and net assets have been restated as of July 1, 2006 for the correction of an error:

#### Fund-level activities:

Fund balance - June 30, 2006	\$ (164,827)
Remittance of captured taxes - Prior years	<u>(68,947)</u>
Fund balance - July 1, 2007 (restated)	<u><u>\$ (233,774)</u></u>

#### Government-wide activities:

Net assets - June 30, 2006	\$ (164,827)
Remittance of captured taxes - Prior years	(68,947)
Investment in pavilion	495,000
Long-term debt	(1,306,800)
Accrued interest on long-term debt	<u>(18,724)</u>
Net assets - July 1, 2007 (restated)	<u><u>\$(1,064,298)</u></u>



## **Required Supplemental Information**

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# Gaylord Downtown Development Authority

## Required Supplemental Information Budgetary Comparison Schedule Year Ended June 30, 2007

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes and assessments	\$ 572,560	\$ 549,496	\$ (23,064)
Interest income	-	11,433	11,433
Other revenue	-	86,146	86,146
Total revenue	572,560	647,075	74,515
<b>Expenditures</b>			
Community and economic development	272,689	173,321	99,368
Debt service	297,788	297,788	-
Total expenditures	570,477	471,109	99,368
<b>Excess of Revenue Over Expenditures</b>	2,083	175,966	173,883
<b>Fund Balance (Deficit) - July 1, 2006</b>	(233,774)	(233,774)	-
<b>Fund Balance (Deficit) - June 30, 2007</b>	<u>\$ (231,691)</u>	<u>\$ (57,808)</u>	<u>\$ 173,883</u>

# **Gaylord Downtown Development Authority**

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## **Note to Required Supplemental Information Year Ended June 30, 2007**

### **Note - Budgetary Information**

The annual budget of the Authority is prepared by the board and presented to the City Council of Gaylord for approval before July 1 of each year. Amendments are also approved by the City Council as needed. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the Fund. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Fund budget as adopted by the Authority board is included in the required supplemental information.

There were no significant budgeted overruns during the year.

August 1, 2008

To the Board of Directors  
Gaylord Downtown Development  
Authority

In planning and performing our audit of the financial statements of Gaylord Downtown Development Authority (the "Authority") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

### **Governance**

- It appears that the Authority's board is not reviewing disbursements prior to releasing checks. Under State of Michigan law, the board is required to authorize all expenditures by the local unit of government prior to their payment. We recommend that the board implement a procedure to review all checks written by the Authority and document the check range and dollar amounts that were reviewed in the board meeting minutes so that there is clear indication of which items were approved for payment.

- During our review of the board meeting minutes of the Authority, we noted that not all board meeting minutes were available, including the meeting where the Authority's board approved the salary of the former executive director. The Authority should maintain all board meeting minutes to document governance.
- We noted no investment policy in place for the Authority. An investment policy is required by Public Act 20 of 1943, as amended. We recommend that the Authority establish an investment policy meeting the requirements of the public act.
- We noted that the budget was not amended during the year. We recommend that the board review budget to actual expenditures and revenue and amend the budget when necessary.

### **Lack of Documentation**

- During our expenditures cut-off testing, we noted several checks totaling \$20,946 that were written within 45 days of year end with no supporting documentation for the expenditure retained on file. We were unable to determine if these amounts should have been included in expense at year end or related to the ensuing fiscal year. In addition, we expanded our testing to review the first 45 days of the year and found only \$1,588 of \$22,431 in checks written were substantiated by supporting documentation sufficient to determine the proper period for recording the expenditure.
- In reviewing expenditures paid during the fiscal year, we selected a sample of \$48,450 in expenditures, of which \$17,565 were unsupported. We were unable to determine if these were allowable expenditures.

For those expenditures we were eventually able to agree to supporting documentation, we found the expenditure was recorded in the correct period and considered allowable.

Expenditures must be evidenced by supporting documentation in order to substantiate the cost (invoice, receipt, etc). We recommend that the Authority implement procedures to maintain all supporting documentation related to expenditures of public funds.

**Audit Adjustments** - The following adjustments were identified and posted during the audit:

- Subsequent to year end, there was investigation of fraud committed by the Authority's former executive director. In total, \$217,465 was identified as fraudulent payments between 2001 and 2007 from the Authority plus \$17,087 in accrued interest, totaling \$234,552. Of the total amount, \$207,089 (\$190,609 plus \$16,480 in accrued interest) relates to payments in the period prior to June 30, 2007 and has been recorded as a receivable by the Authority. The remaining \$27,463 relates to payments made after year end and accrued interest and will be recorded by the Authority in the proper period. The former director has made restitution of \$100,000 and the Authority's insurance carrier has approved a claim of \$60,000 as of the opinion date. The remaining \$47,089 has been fully reserved for at June 30, 2007. The investigation has been completed and the former director has been charged with this crime.
- The Authority received a notice on November 30, 2007 from the State of Michigan Department of Treasury indicating that the Authority did not distribute all the captured school taxes from 2004-2006. The Authority was directed to return \$68,947 to the City of Gaylord Treasurer to be disbursed to the State and School for the over-collection of taxes. We recorded this liability as an prior period audit adjustment at June 30, 2006.
- We posted two adjustments for \$135,266 to correct inter-fund accounting for activity between the Authority and the City of Gaylord.
- There were prior period adjustments on the government-wide statements identified during the audit to record debt and assets recorded on the City of Gaylord's financial statements related to the Authority. We proposed adjusting entries to record \$1,084,400 in debt related to two bond issues by the City of Gaylord to be repaid either fully or partially by the Authority with tax increment financing property tax revenue. In addition, related to one of the bond issues, we proposed an entry to record \$484,000 in net capital assets for the Pavilion, as the Authority maintains control of and maintenance of the facility.

We recommend that the Authority review significant unusual transactions for recording in the appropriate period versus when the cash is paid or received. In addition, we recommend that the Authority verify that inter-fund balances net to zero and balances related to the City of Gaylord agree to the City's records.

We consider the following deficiencies to be significant deficiencies in internal control:

**Bank Reconciliations**

- Bank reconciliations were not prepared on a timely basis during the fiscal year. Bank reconciliations are required to be completed on a timely basis to provide accurate cash information for management and the board to use in making decisions. We recommend that timely bank reconciliations be prepared. To document timely preparation, we recommend that the Authority utilize the sign-off/date procedure for both the preparer and reviewer of the bank reconciliations. The Authority should also consider segregation of personnel who perform each task by reviewing the roles of those who perform and review these monthly reconciliations. The bank reconciliations should also be reviewed by the board in conjunction with the review of expenditures.
- During our review of checks cashed after year end, we found and recorded an audit adjustment for \$1,500 to increase expenditures for checks issued before year end, which would have been identified with a timely bank reconciliation.

**Financial Information** - We found that items are not recorded into the general ledger in a timely manner; instead, all transactions were entered into the general ledger at year end. We recommend that items be added to the general ledger as soon as they arise and all accounting functions should be completed through the general ledger. This will allow for accurate timely information to make management decisions to be provided to the Authority's board.

**Accounts Payable** - During our audit of accounts payable, we noted that initially no accounts payable had been booked as of June 30, 2007. It was noted the Authority does not identify and record expenses and accounts payable at period end. During our review of subsequent disbursements, we found \$2,171 in paid invoices (where invoices were available for review) that was paid after year end relating to expenditures incurred before June 30, 2007. We recommend that the Authority implement procedures to ensure expenditures are recorded in the proper period.

**Unlawful Expenditures** - From the State of Michigan website, the following are examples of unlawful expenditures.

- Contributions to churches, veterans, and nonprofit organizations
- Donations to community organizations
- Expenses for private road construction or maintenance
- Office refreshments or picnics
- Presents to officials and employees or retirement recognition events
- Flowers to the sick or departed (AGO 2346 dated July 18, 1956)

- Mileage of officials (except county finance committee and board of commissioners. See MCL Sections 46.52 and 46.62) and employees to and from their residence to the city, township, or village hall, county building, or meeting rooms. (Mileage paid to county commissioners must, of course, be included on their W-2 as taxable income.)

The Authority's board has passed a resolution relating to applications from charities to award contributions and purchases of flowers for bereavement. We did not note any contributions that were considered unlawful during the fiscal year ended June 30, 2007. However, through expenditure testing, we noted at least \$1,066 in flower purchases during the fiscal year ended June 30, 2007.

We recommend that the board adopt a policy relating to unlawful expenditures, in addition to adding clarification to the contribution policy, to incorporate payments to community organizations and nonprofit organizations that are considered allowable.

**Journal Entries** - We were unable to examine a procedure in place to initiate, review, approve, and record manual adjusting journal entries. Such a process, when executed properly and consistently, will serve to reduce the risk of errors and the manipulation of accounting records.

**Negative Fund Balance/Net Assets** - The governmental fund resulted in a fund balance deficit and the government-wide statements resulted in negative unrestricted net assets as of June 30, 2007. The financial statements show negative fund balance. The Authority should be sure that a deficit elimination plan is filed with the State of Michigan.

We consider the following deficiency to be a control deficiency in internal control:

**Process and Procedure Documentation** - We did not note any formal documented procedures over accounting functions at the Authority. The Authority should formally document its processes and controls over key cycles, such as cash, property taxes, debt payments, journal entries, etc.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver, CPA  
Partner